Distribution effects of inflation through banking credit: the case of Argentina

Chief Economists` workshop: distribution effects of Central Bank policies
Bank of England
May 19th, 2017

Mauro Alessandro
Senior Manager of Strategy and Communication of Monetary Policy

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Agenda

1 | *Financial repression*

2 | *Ex ante distribution effects*

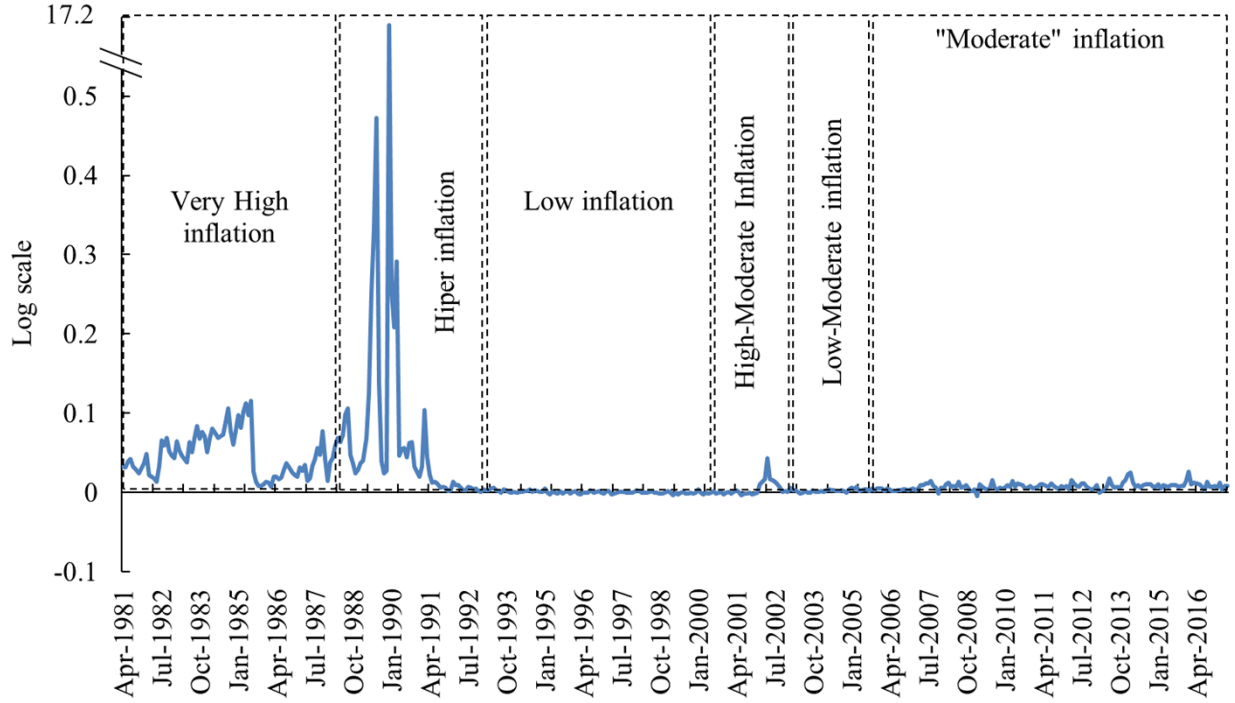
3 | *Ex post distribution effects*

4 | *What the Central Bank of Argentina is doing*

Financial repression

- Understood as regulations that conduct to systematically negative interest rates
- *Facilitated (politically) by high inflation*
- *Shrinkage of financial system*
- *Investment by those who already have savings*
- *Inequality in the distribution (of opportunities, at least)*

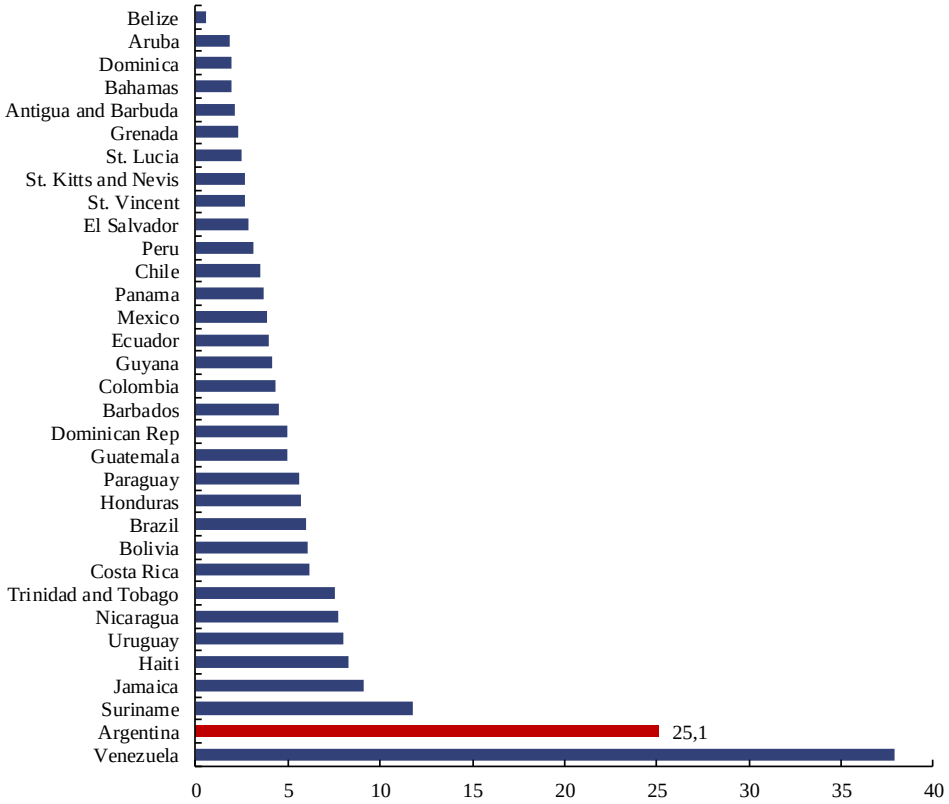
Monthly inflation



Note |monthly change in the log of the price level

Source | BCRA.

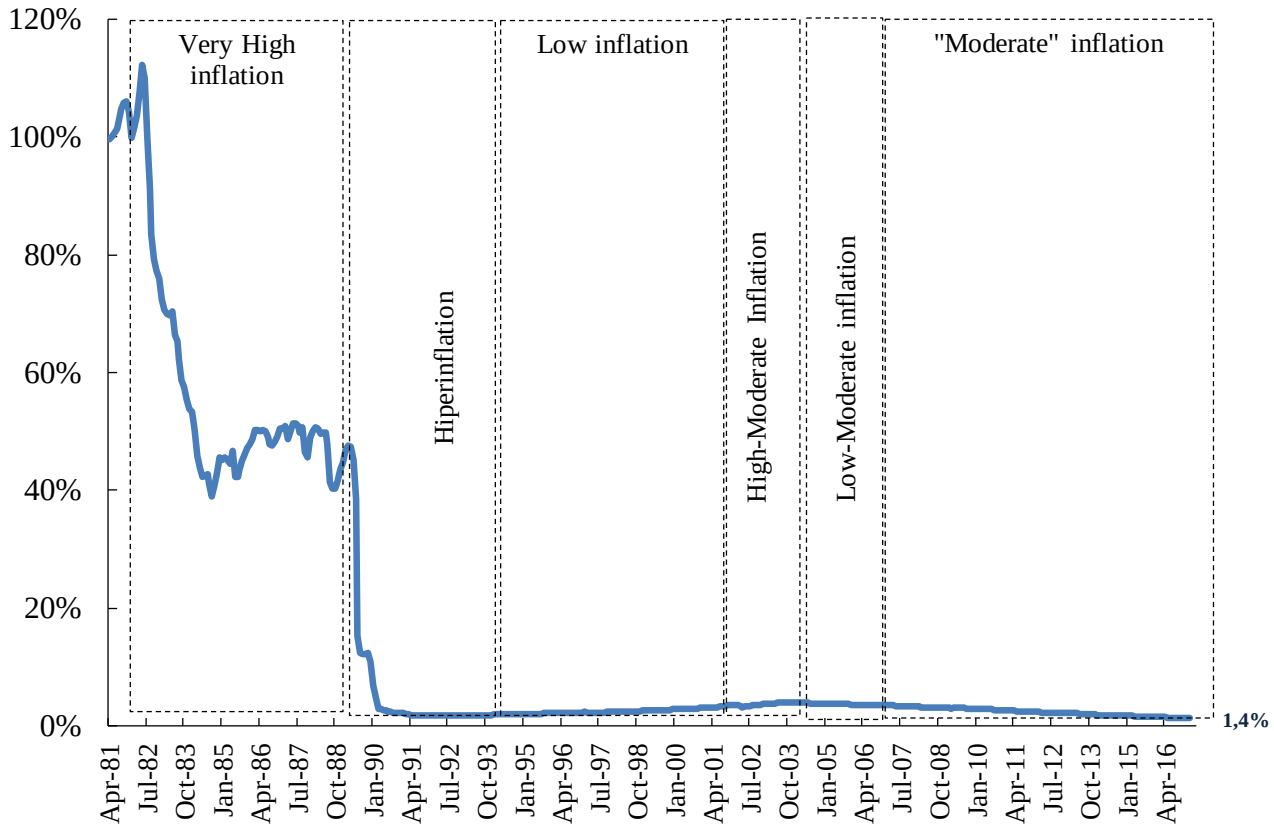
Annual inflation: regional comparison



Latin America & Caribbean (2006-2015)

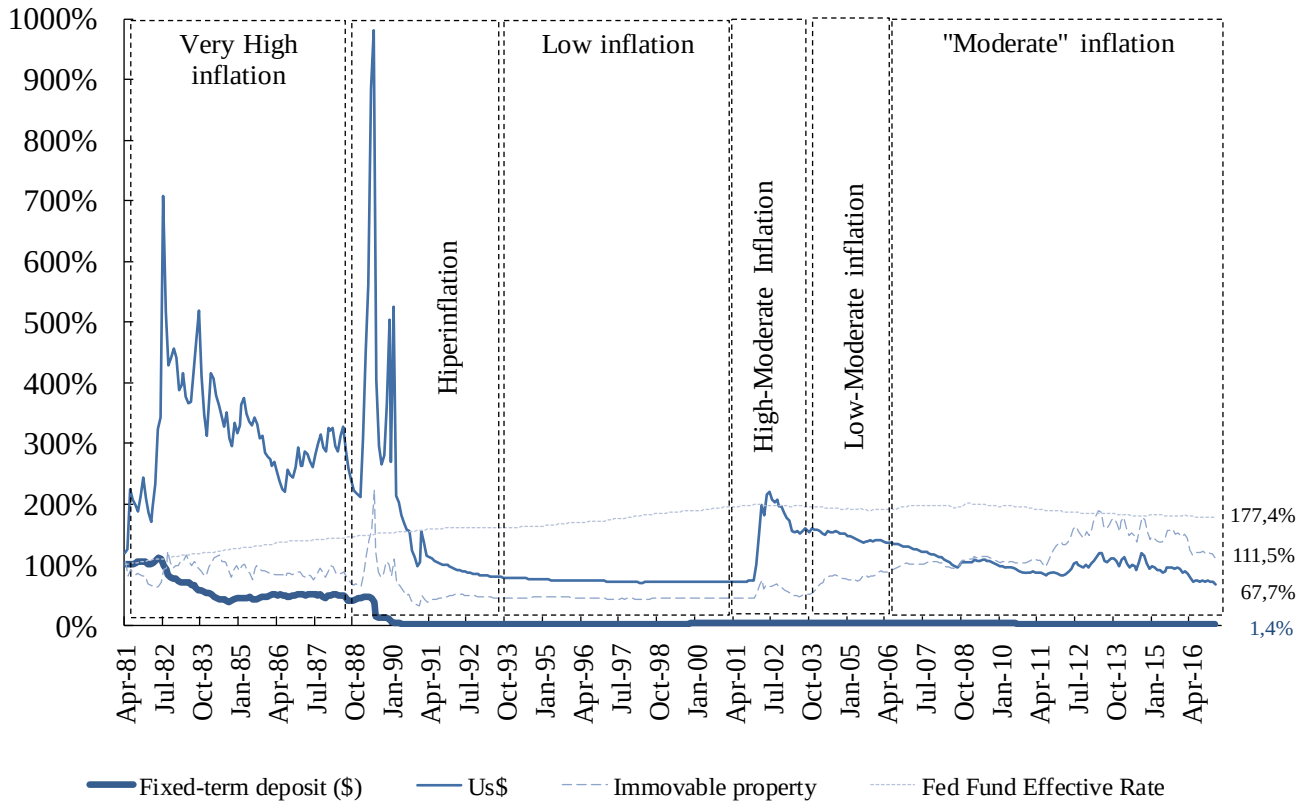
Source| World Bank

Real return of fixed-term deposits



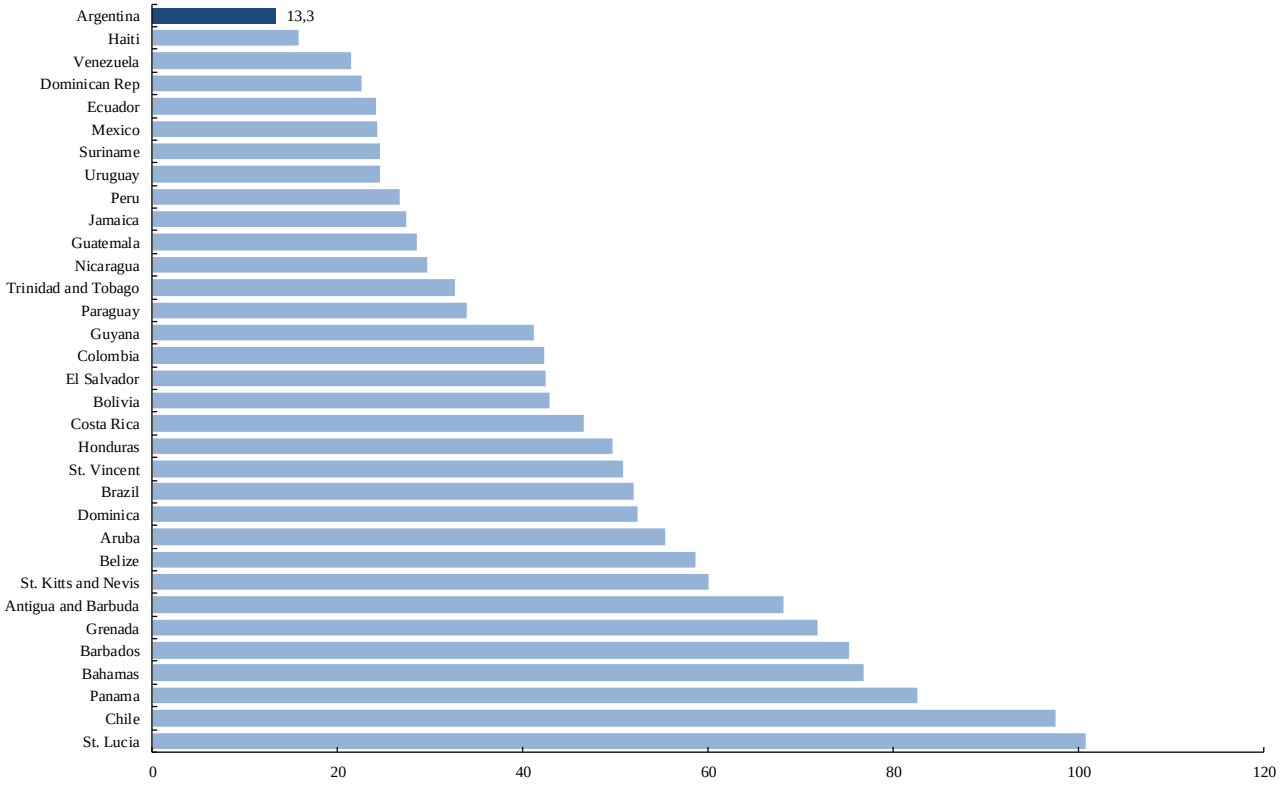
Source| BCRA based on Corso (2015) and Burdiso, Corso y Katz (2014)

Real return of usual assets



Source| BCRA based on Corso (2015) and Burdiso, Corso y Katz (2014)

Domestic credit to private sector (% of GDP)

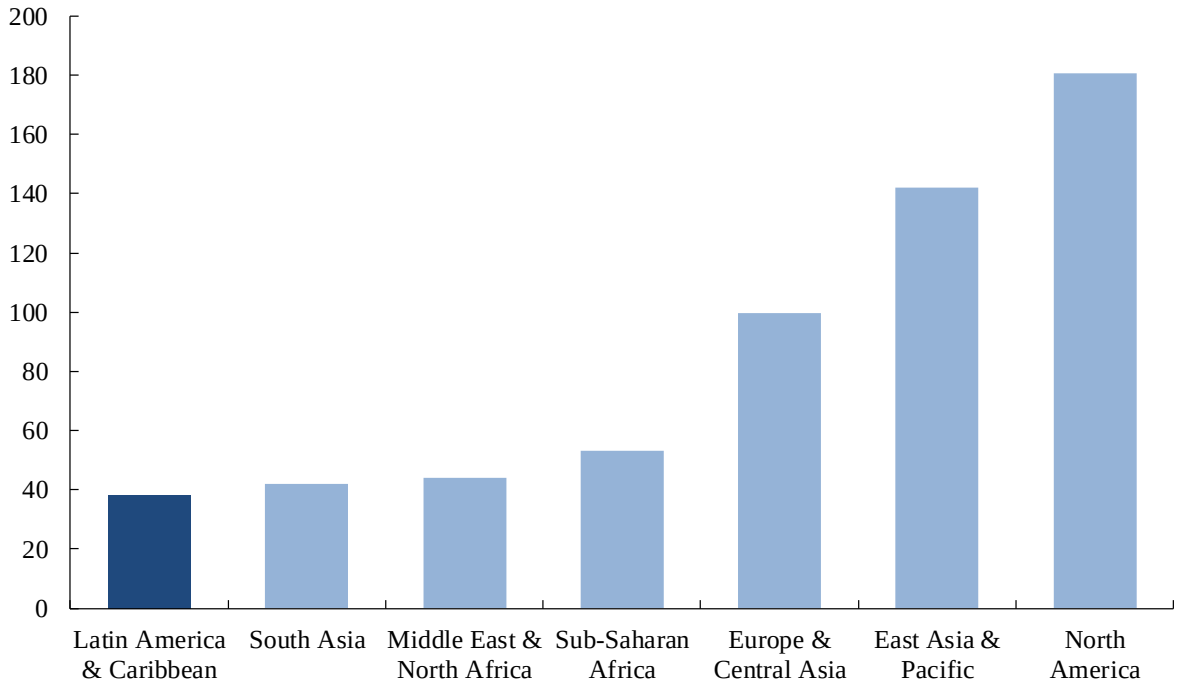


Latin America (2005-2015)

Note| Regions include economies at all income levels. The term country, used interchangeably with economy, does not imply political independence but refers to any territory for which authorities report separate social or economic statistics.

Source| World Bank

Domestic credit to private sector (% of GDP)

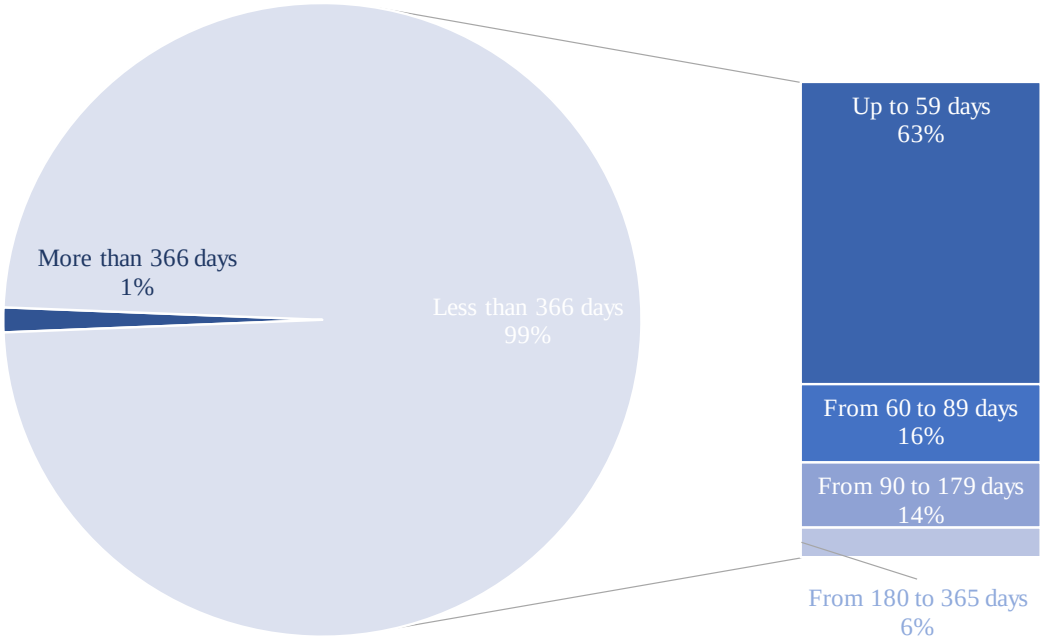


All regions (2005-2015)

Note| Regions include economies at all income levels. The term country, used interchangeably with economy, does not imply political independence but refers to any territory for which authorities report separate social or economic statistics.

Source| World Bank

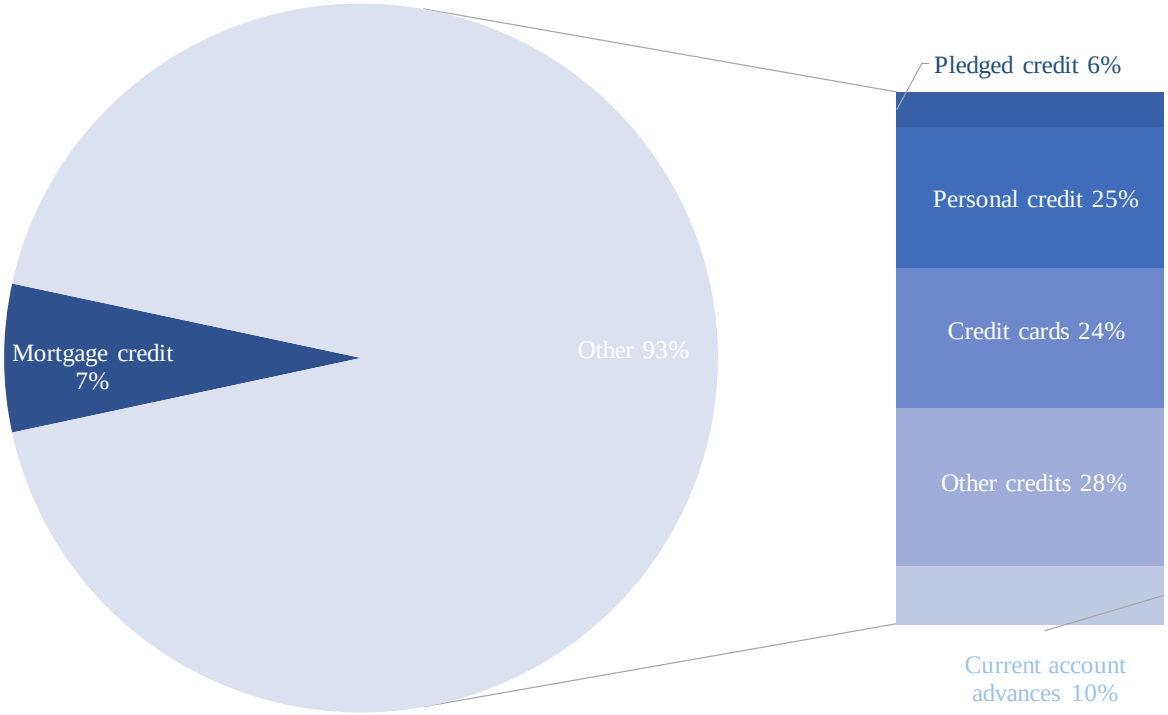
Fixed-term deposits (April-2017): short term



Note| Denominated in domestic currency.

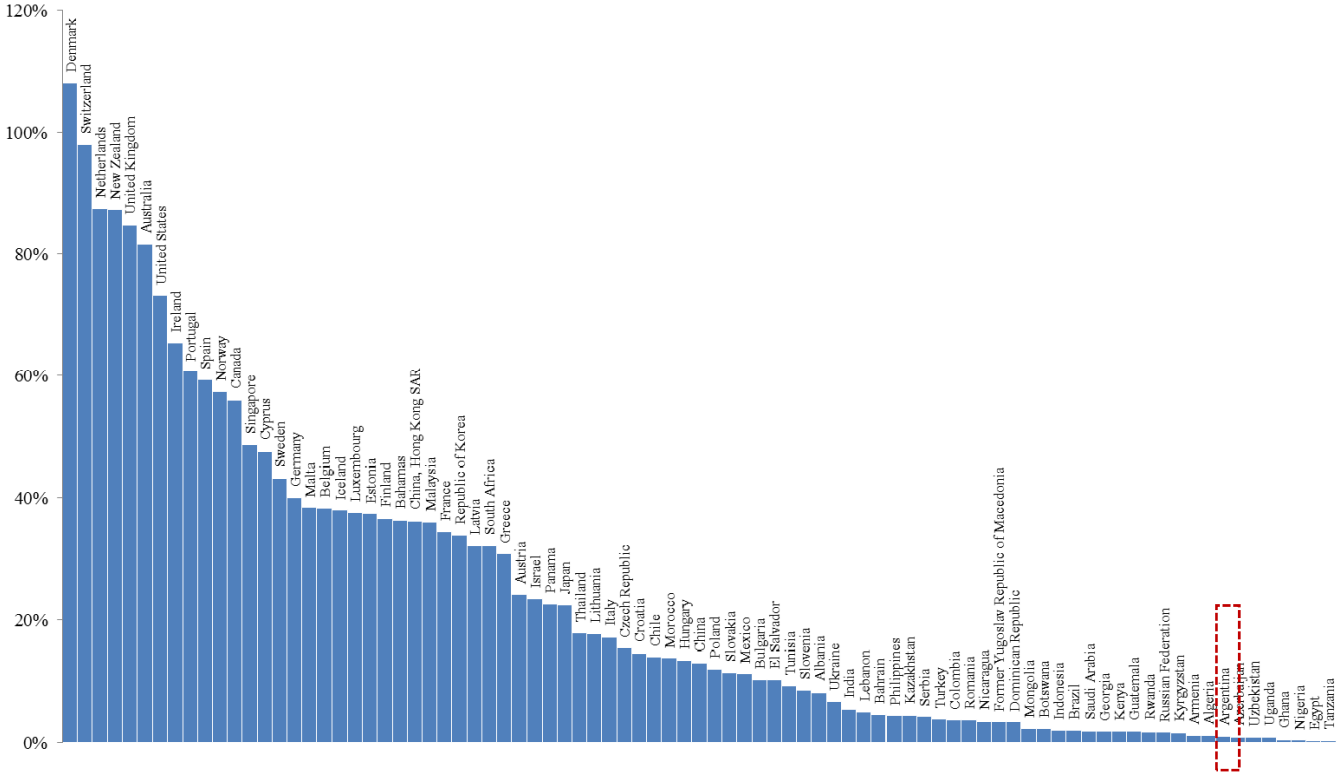
Source| BCRA

Credit to private sector (April-2017): short term



Note| Denominated in domestic currency.

Source| BCRA



Mortgage debt (% of GDP) (2006-2010)

Note| Mortgage debt to GDP. Average data for the period 2006 to 2010.

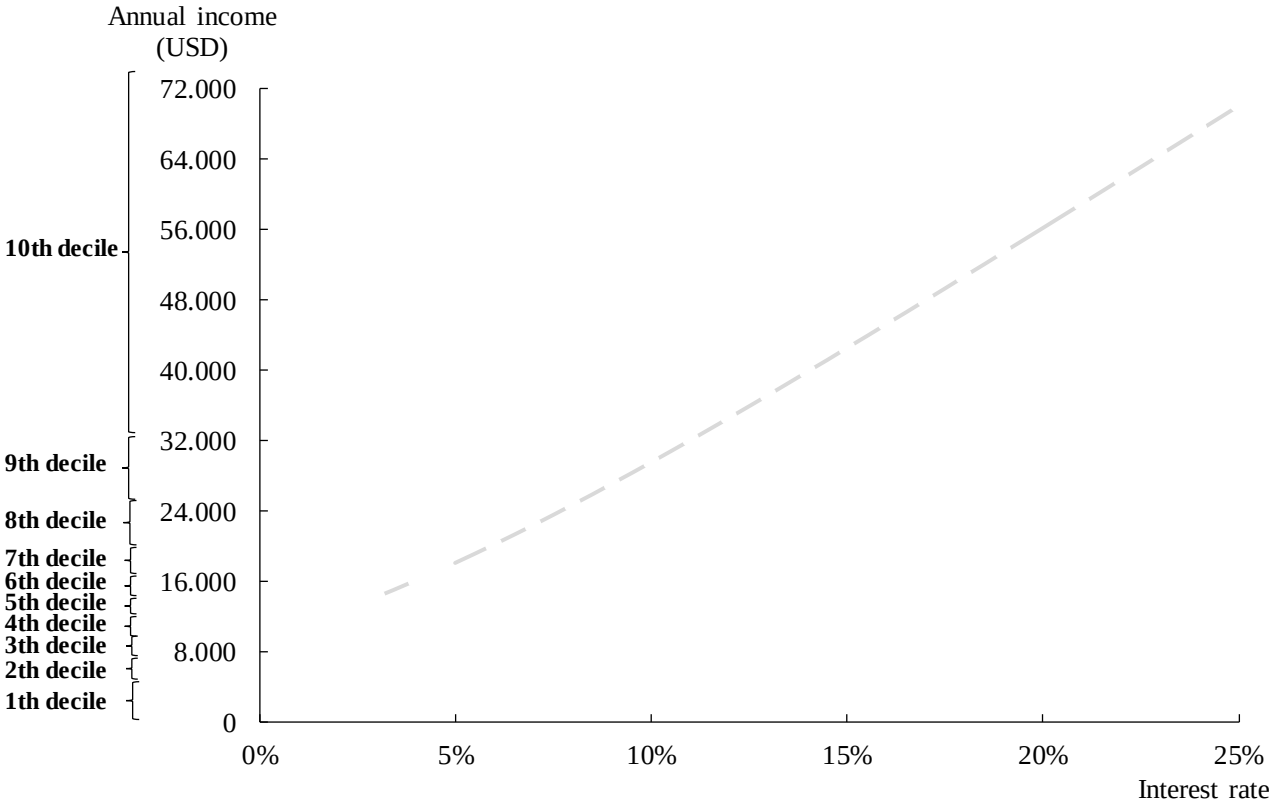
Source| Badev, Beck, Vado and Walley (2014)

Ex ante distribution effects

Ex ante distribution effect

- High expected inflation leads to high nominal interest rates
- *Through income to payment requirements, higher portions of the population are unable to access credit (distribution of opportunities)*
- *Even if their real income is not affected by inflation*
- *Solution while lowering inflation: capital adjusted by inflation*

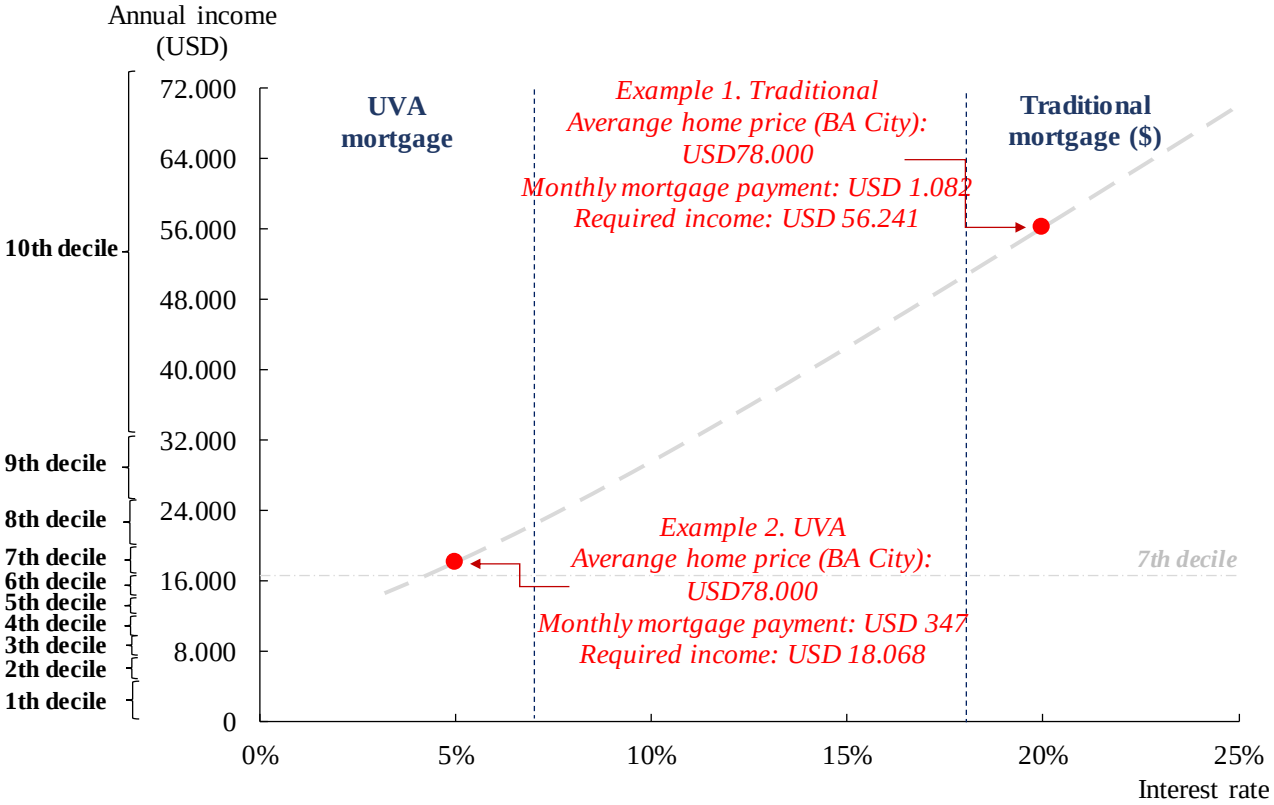
Income required for a 30 year mortgage loan of USD65.000 (average home in Buenos Aires)



Source | BCRA.

Income required for a 30 year mortgage loan of USD65.000 (average home in Buenos Aires)

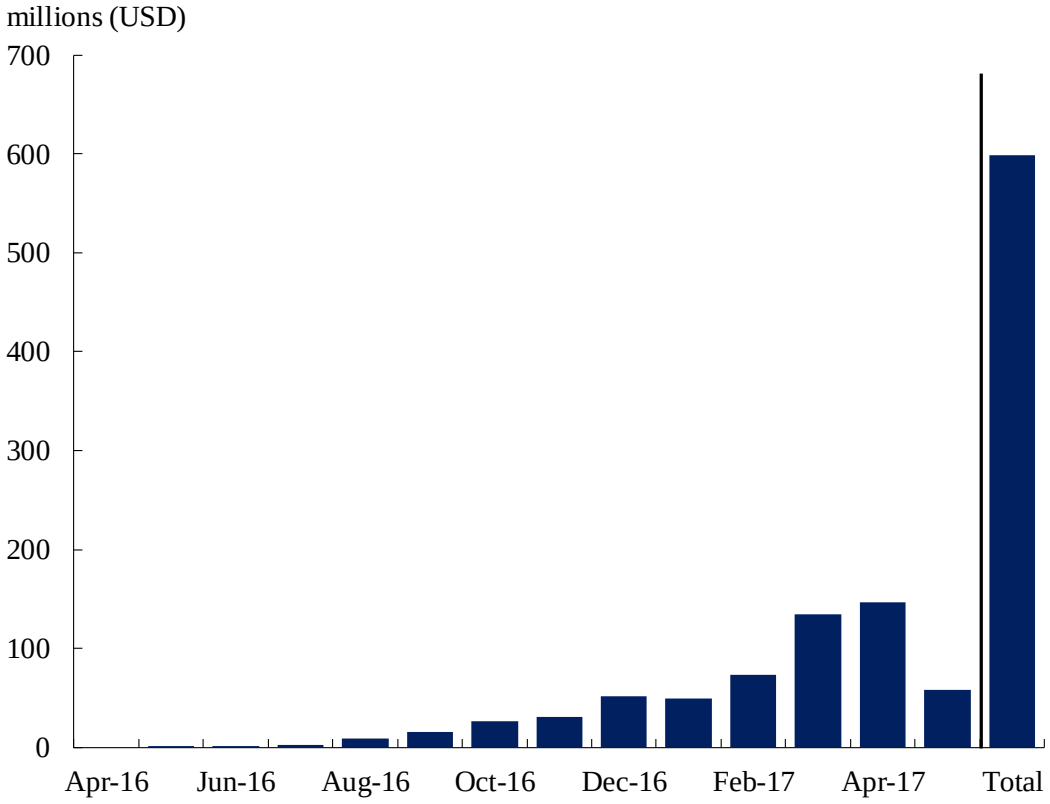
Ex ante distribution effects



Source | BCRA.

Mortgage loans in UVAs (capital adjusted)

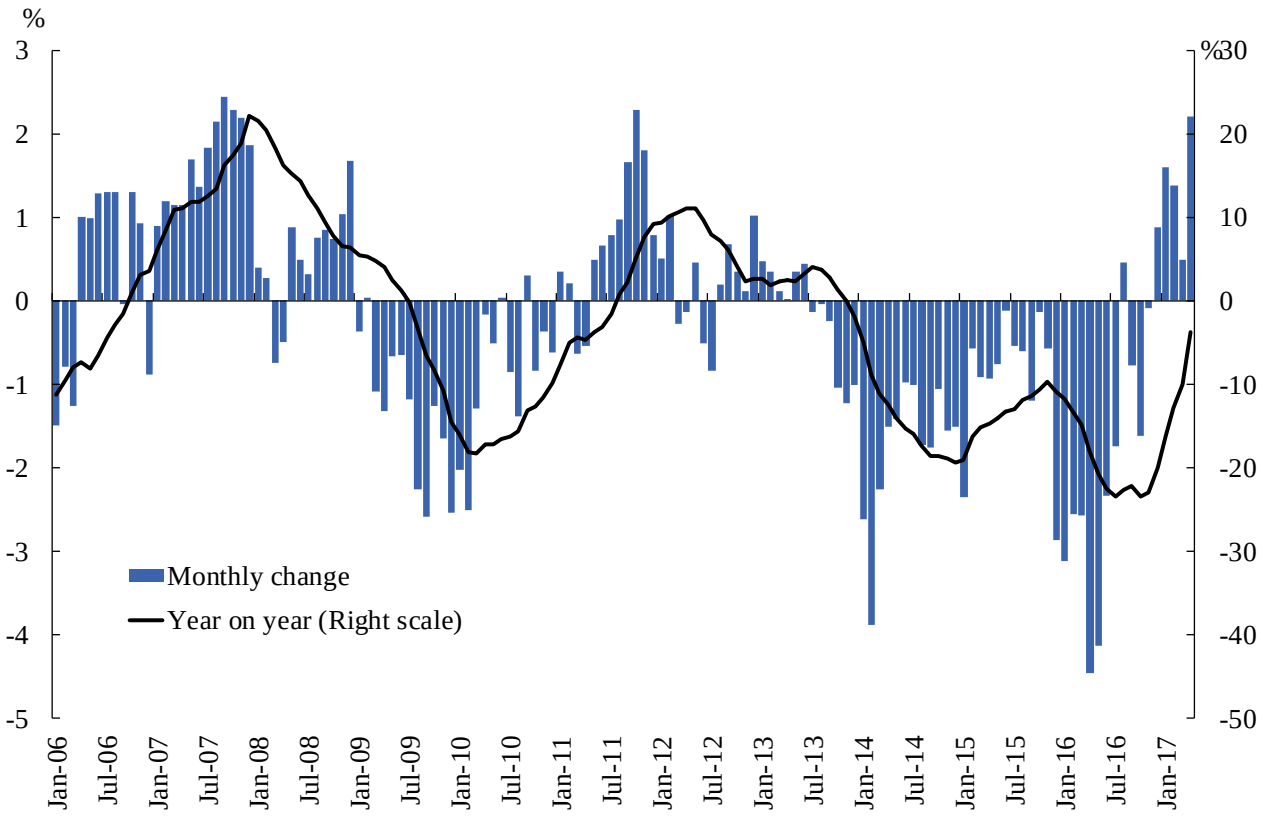
Ex ante distribution effects



Source | BCRA.

Real total mortgage loans

Ex ante distribution effects



Source | BCRA.

BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA | BCRA

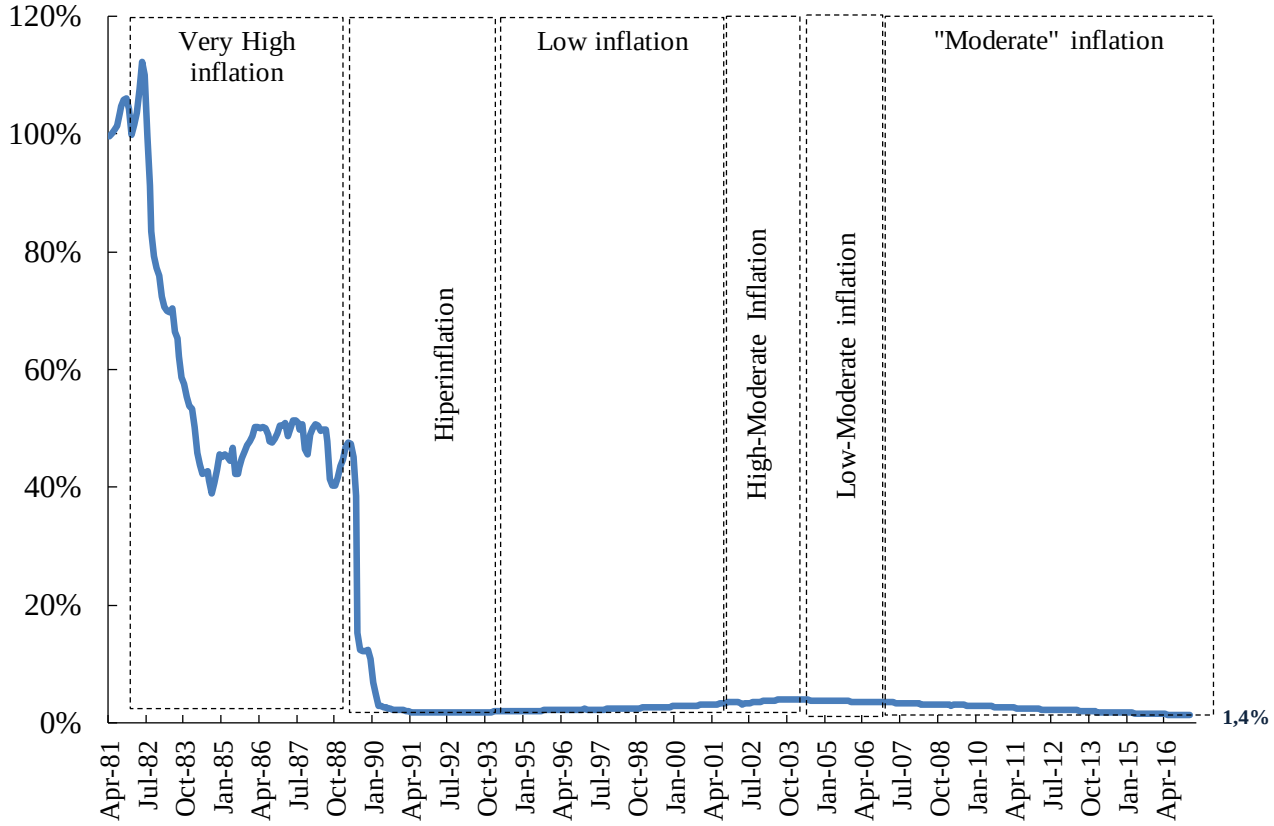
Ex post distribution effects

Ex ante distribution effects

- Typical from debtors to creditors
- *See previous graph about real ex post returns…*

Real return of fixed-term deposits

Ex post distribution effects



Source| BCRA based on Corso (2015) and Burdiso, Corso y Katz (2014)

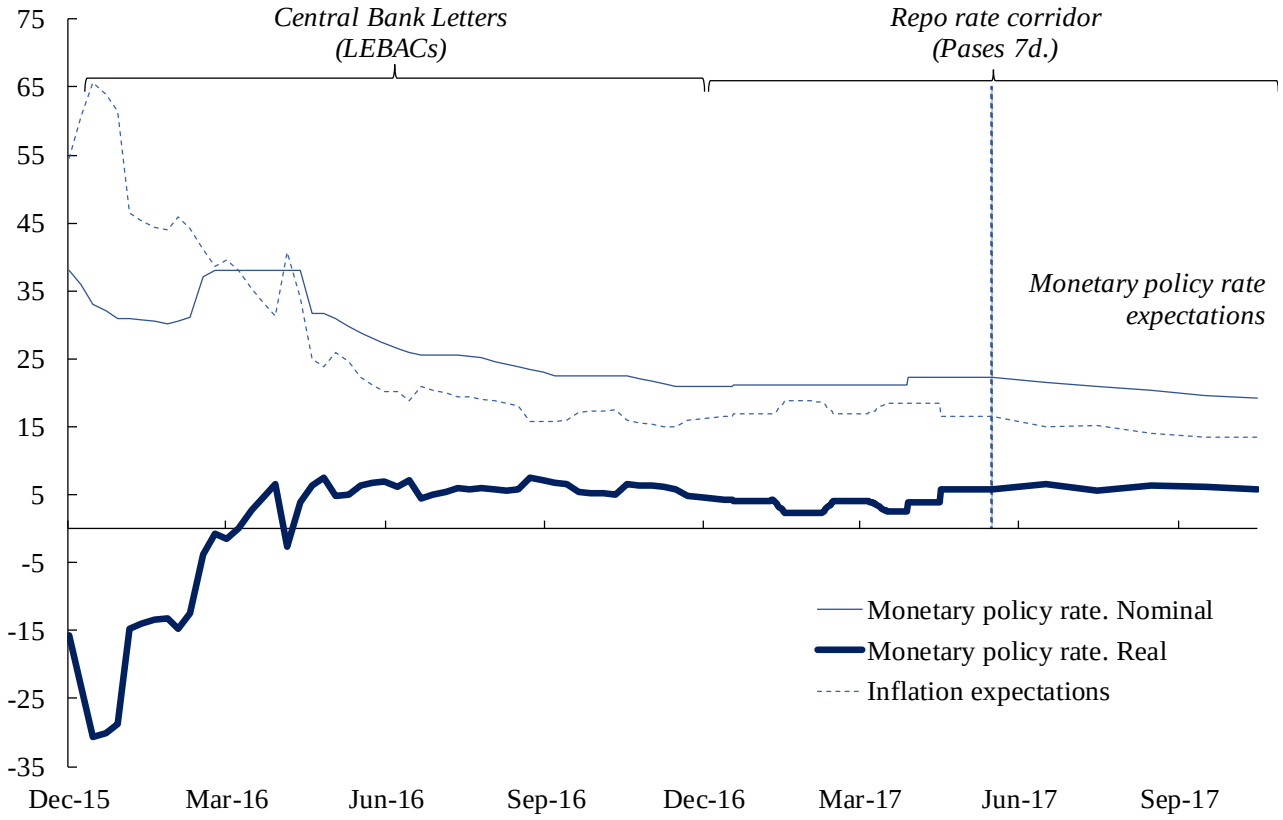
What is the CBA doing?

What is the Central Bank of Argentina doing?

- Set positive monetary policy interest rate in real terms
- Introduce inflation targeting regimen, with decreasing targets
- Inflation and inflation expectations are decreasing but still above targets

Monetary Policy Rate

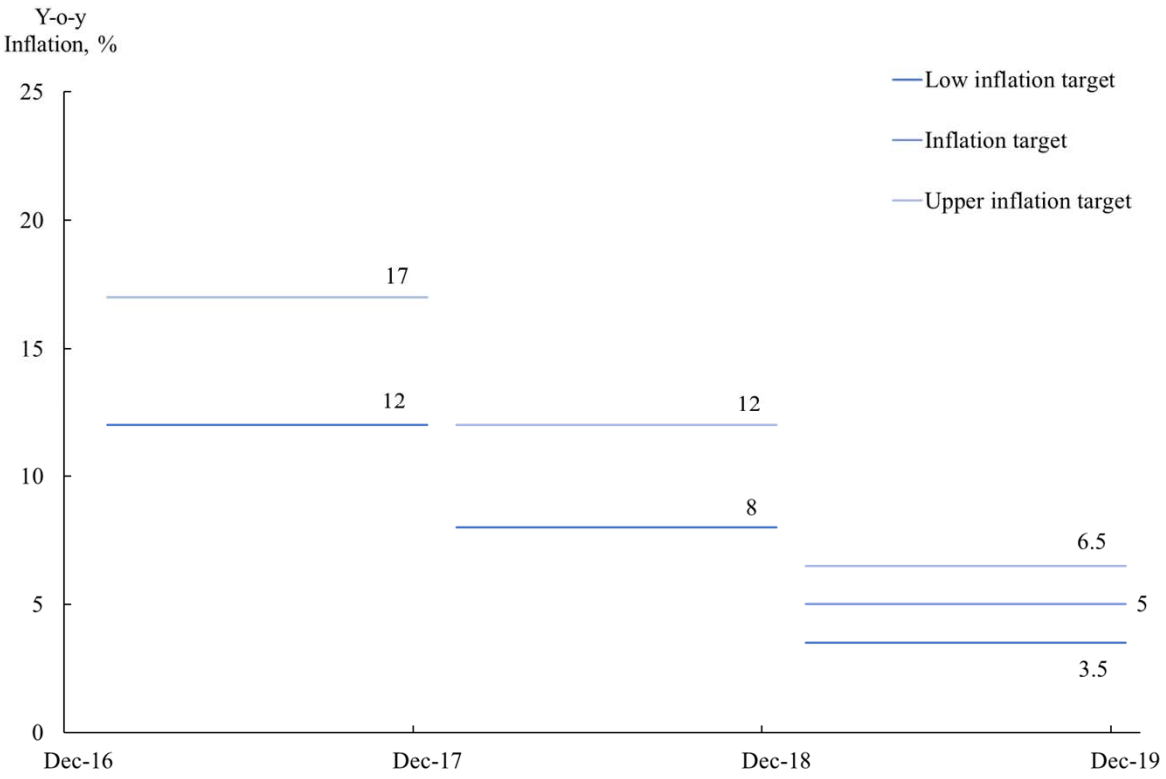
What is the CBA doing?



Source| BCRA

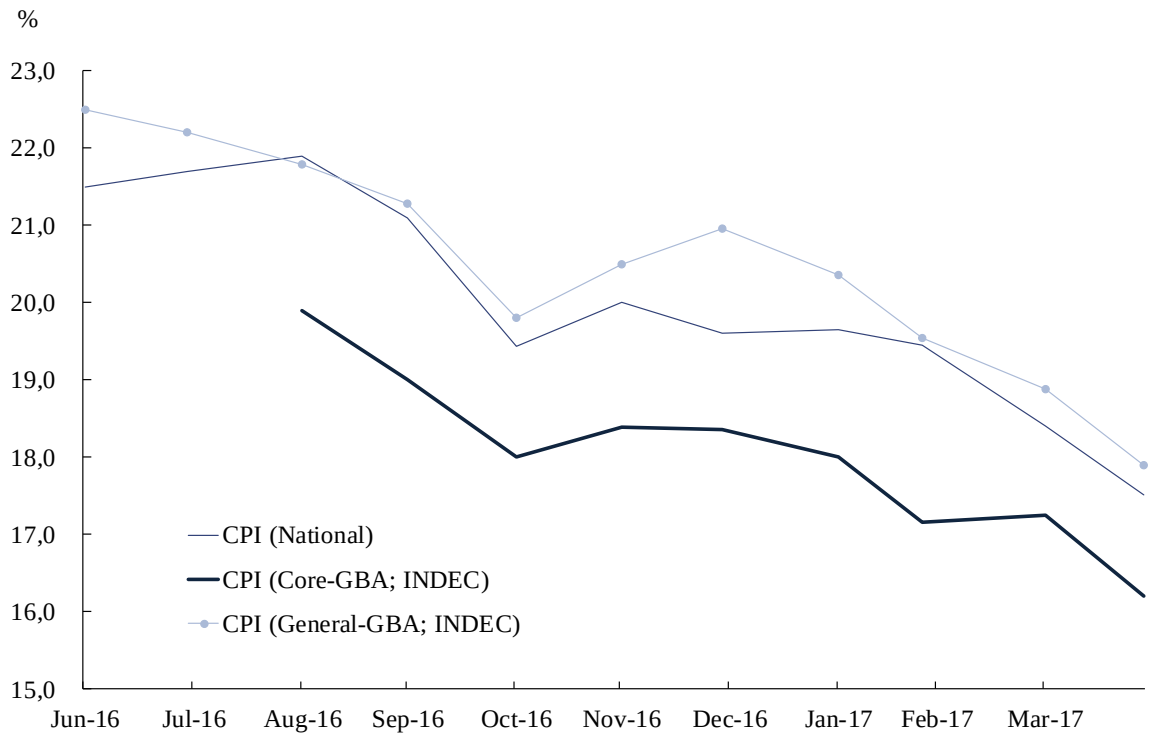
Inflation targeting and expectations

What is the CBA doing?



Source | BCRA

Expected inflation for next 12 months



Source| BCRA

Thank you.

Low inflation and low inflation volatility as drivers of deeper housing finance systems

Interest rate risk passed from lenders to borrowers by offering floating (volatile) rate loans, which affect borrowers willingness to take a mortgage.

62 country cross section regression, where the dependent variables is the average mortgage debt-to-GDP ratio for the 2001- 2005 period.

"Markets and housing finance". Cacdac Warnock and Warnock (2007). NBER

	All Countries		Emerging Market Economies		Developed Countries	
	(1)	(2)	(3)	(4)	(5)	(6)
Legal Rights	6.65[a]	6.25[a]	1.74[b]	1.60[b]	6.09[c]	5.30[c]
	(6.24)	(6.24)	(2.27)	(2.22)	(1.94)	(1.82)
Credit Info	2.47[b]	2.37[b]	1.88[a]	1.77[a]	-1.64	-1.16
	(2.30)	(2.26)	(3.04)	(3.00)	(0.29)	(0.21)
Inflation Vol	-0.04[c]	-0.03[c]	-0.16[c]	-0.02[c]	-6.19	-5.22
	(1.99)	(1.86)	(1.81)	(1.80)	(1.07)	(0.89)
Country Size	4.14[a]	3.90[a]	0.40	0.14	-1.70	-1.30
	(2.93)	(2.83)	(0.38)	(0.14)	(0.68)	(0.31)
Govt Mkt	0.16	0.14	0.05	0.02	-0.24	-0.26
	(1.36)	(1.29)	(0.50)	(0.18)	(0.80)	(0.84)
N	61	61	38	38	23	23
Adj. R^2	0.464	0.452	0.304	0.296	0.132	0.108

Significance at the 1%, 5%, and 10% levels, respectively, is denoted by a, b, and c.